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Gift for those who give: A Guide to deducting charitable contributions: A Speech for CPAs to deliver to general audiences

American Institute of Certified Public Accountants. Communications Division

A GIFT FOR THOSE WHO GIVE:

A GUIDE TO DEDUCTING CHARITABLE CONTRIBUTIONS

A Speech for CPAs to Deliver to General Audiences

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As a group, Americans apparently take to heart the old adage that "it is better to give than to receive." In 1993, more than 73 percent of U.S. households made donations to charity for an average annual contribution of nearly $650 per American household.

In addition, approximately 90 million adult Americans volunteered an average of 4.2 hours per week to charitable causes. That's a total of 19.5 billion hours, or more than 2.2 million years worth of volunteer time! These statistics came from a survey conducted by Independent Sector, a coalition of charities and grant-makers. Another astounding statistic, from a group called Giving USA, indicates that donations from individual contributors totaled $102.6 billion in 1993.

If you are part of this generous majority, you most likely donate time, services, or expertise; money; property; or some combination of these commodities because of the personal satisfaction it brings you. But Uncle Sam, who believes virtue does not have to be its own reward, provides you with a tax incentive as well. As long as you itemize on your tax return and contribute to a <u>qualified</u> charity, you are entitled to deductions for your generosity.

Today, we're going to discuss this "gift" from the U.S. government, including tax breaks for which you may qualify and the guidelines you need to observe. After my talk, there will be plenty of time to answer any questions you may have. [OPTIONAL: I will also hand out a brochure* that contains highlights of some of this information.]

First, let me stress that charitable gifts are deductible only if they are donated to an organization qualified by the Internal Revenue Service to receive tax-deductible contributions. Not all tax-exempt organizations meet this standard.

Generally speaking, your gift must go to a domestic nonprofit organization, trust, community chest, fund, or foundation operated exclusively for one of several purposes. The first of these is entities operated for religious purposes. Payments for pew rents, assessments, and dues to your church or synagogue, for example, are eligible for a charitable deduction.

*To order the 1995 version of the brochure, *Good News for Good Samaritans*, which highlights the points made in this speech, call the AICPA Order Department at 1-800-862-4272 and request product #889491. The cost is $23/100.

Contributions to groups that exist for charitable purposes, such as the American Red Cross, Boy Scouts and Girl Scouts of America, cancer societies, United Way, Salvation Army, and YM or YWCA, also qualify.

Another category of eligible organizations comprises groups organized for scientific, literary, and educational purposes. These include hospitals, research organizations, colleges, and universities.

There are many other types of qualified organizations, as well. For example, associations established to promote education, combat crime, and aid public welfare are qualified. Groups dedicated to the prevention of cruelty to children or animals, such as the ASPCA, and corporations established to provide legal services to the needy in noncriminal proceedings are also eligible.

Still other examples include nonprofit cemetery and burial companies -- provided your voluntary contribution benefits the entire cemetery -- and organizations that foster amateur sports competition, such as the U.S.

Olympics Team. Domestic nonprofit veterans' organizations or auxiliary units also qualify as eligible organizations for a charitable deduction.

In addition, you may make deductible contributions to many federal, state, and local governmental agencies if the gift is for public purposes. Examples of allowable deductions in this category include gifts to the Social Security system, your local fire department or civil defense group, or a committee formed to raise funds for developing a public park. You may even take a deduction for a contribution to help reduce the national debt!

Although many different types of tax-exempt organizations are eligible to receive deductible charitable contributions, many more are not. Political campaign organizations, political action committees (PACs), and other lobbying groups, for example, do not qualify. Most contributions to fraternal and professional groups, civic leagues, chambers of commerce, country and other social clubs, homeowners associations, and foreign charitable organizations are not deductible either. Also, gifts to needy or worthy individuals, scholarships for specific students, or contributions to organizations to benefit only certain groups may not be claimed as deductions in most cases.

If you are in doubt about a potential recipient, ask your CPA or tax adviser about its tax status before making a contribution. Or, refer to IRS Publication 78, Cumulative List of Organizations, also known as the "IRS Blue Book."

Now that I've highlighted the types of qualified charitable organizations, let's take a look at the different kinds of donations: time, cash, and property.

I'd like to begin with what may be the most personal gift of all -- your time. Roughly half of Americans over the age of 18 believe, as a Middle-Eastern poet said earlier this century, "It is when you give of yourself that you truly give."

If you are among this group, you may already know that the value of your personal time, services, or expertise does not qualify for a charitable deduction. You may, however, deduct out-of-pocket expenses related to your volunteer work, such as phone calls, postage, and transportation costs.

For instance, when you use your car to travel to and from your volunteer commitments, you have the option of deducting a flat rate of 12 cents per mile or your actual operating costs, whichever is greater. Note that operating costs <u>include</u> gas and oil but <u>exclude</u> any depreciation, insurance fees, or repair costs. In addition, you may deduct parking and tolls. When you use a cab or public transportation to travel to and from your volunteer activity, the fares are also deductible.

If your volunteer activities require you to travel away from home overnight, you may be able to deduct 100 percent of your unreimbursed transportation and lodging costs. Under new provisions of the tax law, the amount you may deduct for meals has been decreased from 80 percent to 50 percent. The IRS will allow these deductions as long as there is no "significant element of personal pleasure, recreation, or vacation" to your trip.

For example, if you are chosen to represent your chapter of a charity at the organization's national convention, your unreimbursed travel and transportation expenses are deductible. This includes reasonable costs for meals and lodging. It excludes expenses for sightseeing, entertainment, and the travel, meal, and lodging expenses of your spouse or children.

And don't forget incidental expenses incurred as part of your volunteer work. These include unreimbursed postage, the cost of stationery and other business supplies, and telephone charges. You might think these are too small to bother with, but they can add up quickly. Other examples include the purchase price and cleaning bills for a uniform you are required to wear when you volunteer, provided that you wear the uniform only for that purpose. Even such expenses as the ingredients used to make something for a bake sale may qualify!

You should be aware that your unreimbursed out-of-pocket expenses related to volunteer work are considered to be cash contributions and are subject to the same rules as cash contributions, which I'll discuss shortly. Make sure you keep a record, or diary, of your volunteer activities and expenses as they occur, and save all related receipts and canceled checks. Also be sure to record these payments on the appropriate part of your tax return.

Since we've raised the subject, let's turn our attention to cash contributions. Although monetary donations may not seem as personal as the gift of time, cash contributions are the mainstay of most charitable organizations. To encourage such contributions, federal tax law generally allows taxpayers to make deductible cash contributions of up to 50 percent of adjusted grossed income.

You've probably all had the experience of making a cash contribution to a charitable group and receiving something of value in return for your gift. For example, you donate $50 to your local public broadcast station and receive a tote bag, or a book. The IRS refers to this as a quid pro quo contribution, which means "something for something." In these cases, you may <u>not</u> deduct the full amount of your cash gift. Rather, you must reduce from your contribution the fair market value of whatever you receive.

For example, let's assume you buy a $100 concert ticket for a charity fund-raiser and the equivalent ticket normally costs $40. In this case, you are entitled to deduct only $60. If, for some reason, you aren't able to use the ticket, returning it to the charitable organization for resale will entitle you to deduct the full $100.

You should be aware that as of January 1, 1994, if you make a quid pro quo contribution of more than $75, as in the concert-ticket example, the charitable organization is required to give you a written disclosure statement that includes a good-faith estimate of the value of the goods or services you received. This disclosure may be part of the charity's solicitation -- for example, the invitation to a fund-raiser -- or of its acknowledgement of your contribution.

When you donate $75 or less, as in the example of the PBS contribution, it's up to you to determine the fair market value of whatever you receive from the charitable organization. Also, regardless of the amount of the contribution, no disclosure statement is required if you receive an item that has "insubstantial," or token, value under the IRS guidelines. Examples of token items might include calendars and posters. The same is true if you receive intangible religious benefits, such as admission to a religious ceremony, in exchange for your donation. The IRS guidelines for determining token value are adjusted each year for inflation, so check with your CPA.

I'd like to take the time to point out, since they are such common forms of fund-raising, that raffle tickets, bingo games, or other lotteries organized by charities do not qualify as deductible contributions.

In order to claim a deduction for a cash contribution, you need proper documentation. According to a new provision in the tax law, as of January 1, 1994, you may no longer rely on canceled checks but must obtain written substantiation for every separate cash donation of $250 or more. Separate payments are regarded as independent contributions and are not totaled for purposes of determining the $250 threshold. Be aware that if you write several checks to one organization on the same day and the checks total $250 or more, the payments will count as one contribution unless each is for an entirely different purpose. For donations that are made through payroll deductions, each deduction is regarded as a separate contribution.

Again, as I said a moment ago, the charity's acknowledgement must also include a good-faith valuation of anything you received in exchange for your donation, or it must state that you received nothing of value in return. You are required to have this documentation before filing your return for the tax year in which you made the contribution.

For gifts of less than $250, a canceled check, receipt, or some other type of reliable written record from the charitable organization is still acceptable proof. The receipt should show the name of the organization and the amount and date of the contribution.

But remember, if you made a quid pro quo contribution of more than $75 and received consideration, the charity must provide a disclosure statement with a valuation of the goods or services given to you.

There are other ways, besides giving cash, to make a useful donation to your favorite charitable organization. Take a look at that desk, bookcase, computer, or appliance gathering dust in your attic or basement. Such items can make an ideal donation -- and deduction. Other personal property, such as books, or old clothing that is in good condition, can be donated as well. So can artwork, collectibles, and financial assets such as real estate, stocks, and bonds.

When you donate property, there are several important points to keep in mind. First, deductible contributions of property generally may not exceed 30 percent of your adjusted gross income. Second, the amount of the deduction you are entitled to claim will depend on a variety of factors. These include the type of property you are donating, how long you owned it, the nature of the charitable organization, and its intended use of the donated property.

Third, when you donate tangible personal property worth more than $500, you must complete Form 8283, titled "Noncash Charitable Contributions," and attach it to your tax return. To determine your deduction, you have to establish the fair market value of the donated item at the time you contributed it. For example, you may want to check how much thrift shops charge for similar items.

Fourth, property gifts with a value in excess of $5,000 -- perhaps antiques, artwork, or collectibles -- generally require even greater substantiation. Generally, if you claim a deduction of more than $5,000, you are required to obtain a written appraisal. The appraisal must be performed within 60 days preceding the date of the contribution. And the appraiser must be a qualified professional who is not related to you or the recipient organization.

The appraisal should list the appraiser's qualifications, a description of the property, and a statement of the appraiser's opinion of its value. Form 8283 and the appraisal itself both must be signed and dated by the appraiser. In most cases, it's not necessary to include the appraisal with your tax return. You should, however, keep it with your tax records. If you are ever challenged on your contribution, this document will help support your deduction.

One way to maximize your tax savings from charitable contributions is to donate long-term assets that have appreciated in value -- such as securities, artwork, or real estate -- instead of cash. By long-term asset, the IRS means assets you have held for more than one year. In many cases, you may take a deduction for the fair market value of the asset at the time it was donated without having to pay income tax on the appreciation -- a double gift from Uncle Sam!

The rules governing contributions of appreciated property have swung back and forth like a pendulum. The 1986 tax law placed such severe restrictions on deductions for appreciated property that many nonprofit institutions suffered. Art museums, for example, stopped receiving donations of artwork that had appreciated in value because the owners benefitted more by selling at auction. The Omnibus Budget

Reconciliation Act of 1993, however, eased up on the restrictions -- to the loud acclaim of donors and recipients alike.

If you do plan to donate property, particularly an appreciated asset, carefully consider the type of organization that will best benefit from your gift. You can usually deduct the fair market value of the property only if the gift will be put to a use that is directly related to the charity's purpose or function.

When you donate ordinary-income property -- property that wouldn't produce a long-term gain if sold on the open market -- or assets you've held for a year or less, the deduction is limited to your basis in the property -- in most cases, what it cost you. If your gift of property is not put to a use related to the charity's purpose or function, your deduction may be limited to the property's fair market value minus the amount of any unrealized long-term capital gains. So, if you're thinking of donating that Picasso you inherited from your grandmother, give it to your favorite art museum instead of the ASPCA!

For investment property that has declined in value, as a CPA, I suggest that you sell the property and then donate the cash proceeds. This way, you can take advantage of both the capital-loss and charitable-donation deductions.

With regard to proving your property donations, the same rules apply as for cash and quid pro quo donations. A receipt is required if you are claiming a deduction of $250 or more. Again, the charity must furnish a disclosure statement if the donation is worth more than $75 and you received something of value in exchange for your donation. And don't forget the appraisal requirements.

All of the deductions we've discussed today are available to individuals who itemize on their tax returns. But some of you might not have enough deductions to itemize each year. If so, consider "bunching" your contributions into alternate years. Donate more than usual in the years when you think you'll be able to itemize and less in the preceding or following years. This may help you save money on your taxes.

I hope this presentation gave you some broad guidelines on charitable giving. The rules for deducting some types of contributions are complicated, and I did not address such issues as charitable trusts, which apply to a minority of donors. If you have questions concerning specific charitable deductions or need advice on determining a strategy for charitable giving, I urge you to consult a CPA. As CPAs, we are trained professionals who are aware of the latest tax developments and can help you get the deductions you deserve as a reward for your generosity.

Now, if there are any general questions, I'd be happy to answer them.

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